



NATURAL GAS UPDATE

February 2005

Natural Gas Prices (\$/MMBtu)

Average Price	January 2005	December 2004	January 2004
PG&E, Malin	5.66	6.19	5.61
PG&E, SoCal Border	5.72	6.41	5.71
SoCalGas Average	5.70	6.40	5.66
Henry Hub, Louisiana	6.15	6.62	6.13

Source: Natural Gas Intelligence

Natural Gas Prices

Relative to the rest of the U.S., natural gas spot prices at the California border were relatively stable during January 2005, despite cool temperatures in Northern California and persistent cold, wet weather in Southern California early in the month.

As January progressed, weather moderated across the state, and the differential between

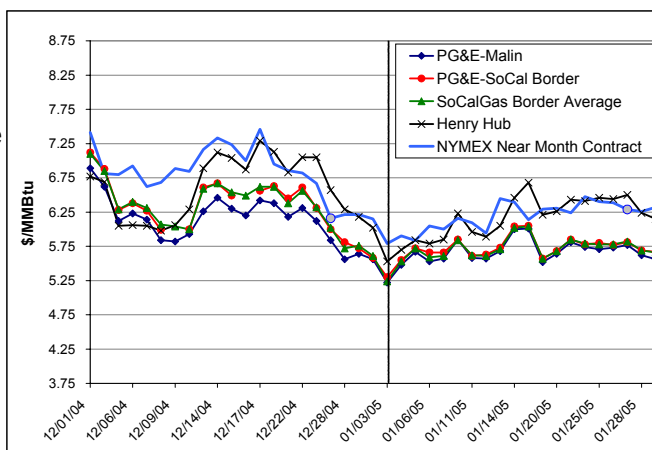


Figure 1: Daily Natural Gas Spot and NYMEX Prices

natural gas prices in California and other parts of the nation became more pronounced. Judging from January's above-average storage withdrawals and below-average border receipts, California's utilities and gas storage customers used stored gas to minimize spot purchases and manage natural gas prices.

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This document was prepared for the California Natural Gas Working Group. The California Natural Gas Working Group is a consortium of California State Government Agencies including:

California Air Resources Board
California Energy Commission
California Public Utilities Commission
California State Lands Commission
Department of Conservation, Division of Oil, Gas, & Geothermal Resources
Department of General Services
Department of Water Resources

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California System Operations and Gas Storage Update

Statewide, natural gas demand was average during January 2005, based on utility sendouts for California's two largest natural gas utilities. Both SoCalGas and PG&E had above average deliveries to customers during the first half of the month. Demand tapered in the second half of the month as temperatures increased. Storage played a key roll supplanting receipts from the interstate pipelines serving California, particularly during the coldest parts of the month (please see Figures 2 & 3).

During January 2005, SoCalGas' average daily deliveries were 3,160 MMcf, compared to a four-year January average of 3,408 MMcf per day. Receipts of natural gas into the SoCalGas system were much smaller than deliveries during January 2005, averaging 2,462 MMcf per day. The four-year average is 2,715 MMcf per day. To make up for the difference between system receipts and customer deliveries, SoCalGas withdrew an average of 694 MMcf per day from storage.

Demand in the PG&E service territory was about 200 MMcf per day higher than average during January 2005, at 3,242 MMcf per day. Like SoCalGas, PG&E brought less-than-average volumes of gas into its system during the month, with system receipts averaging 2,267 MMcf per day, compared to the four-year average of 2,358 MMcf per day. PG&E augmented its supplies by pulling an average of 683 MMcf per day from storage.

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Natural Gas Prices

(Continued from page 1)

Much of the nation, outside of the West, experienced very cold weather during January 2005, particularly in the second half of the month. The affect of the cold temperatures on prices was most acute in capacity-constrained New York. During the third week of January 2005, spot prices on the Transco Zone 6 (NY) pipeline averaged \$22.18 per MMBtu, peaking at \$45 per MMBtu. The following week, spot prices on the same pipeline averaged \$14.97 per MMBtu, peaking at \$25.50. By comparison, Henry Hub averaged \$6.40 and \$6.41 per MMBtu during those two weeks, respectively. The average spot prices at the Southern California border were \$5.79 and \$5.77 per MMBtu during the final two weeks of January 2005, respectively.

In addition to the upward pressure on demand caused by cold temperatures, the lingering affects of the 2004 hurricane season continue to limit natural gas production from the Gulf of Mexico. According to the

Department of the Interior, Minerals Management Service, as of January 31, 2005, 489 MMcf per day of natural gas production in the Gulf of Mexico remained shut-in as a result of damage caused by Hurricane Ivan. This represents 3.7 percent of the daily output from the Gulf of Mexico. To date, over 165 Bcf of potential natural gas production in the Gulf of Mexico has been shut-in due to Ivan. The hurricane struck the region on September 11, 2004. ■

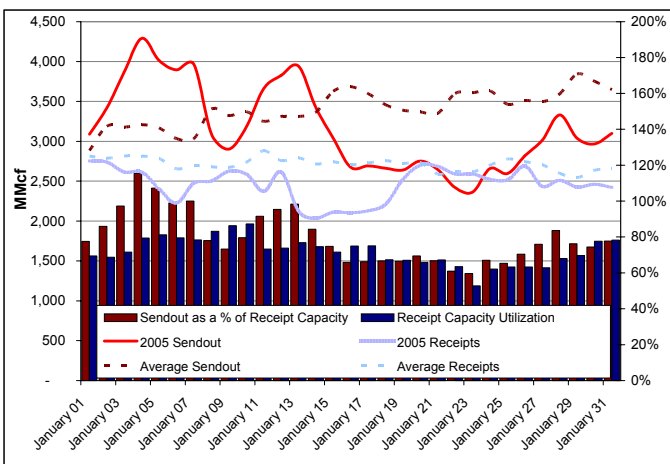


Figure 2. SoCalGas' Natural Gas Receipts and Deliveries, January 2005

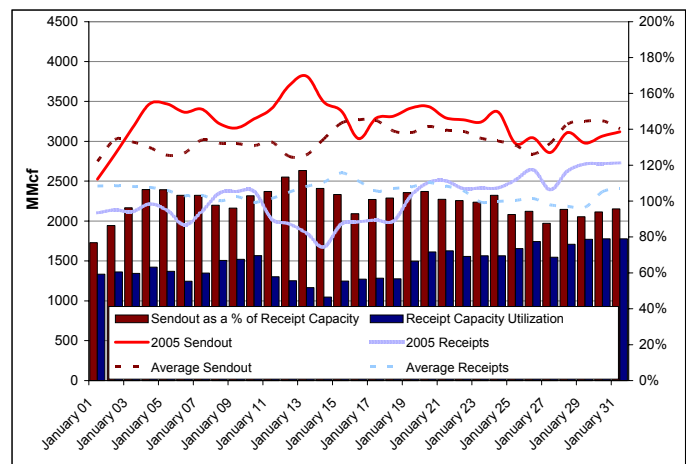


Figure 3. PG&E's Natural Gas Receipts and Deliveries, January 2005

System Operations

(Continued from page 1)

California storage customers withdrew 52 Bcf from storage during January 2005, the third largest single month draw down over the previous ten years. Even though January's withdrawals totaled nearly 20 percent of California's storage capacity, inventories remained well above average by month's end at 163 Bcf. The average storage volume on February 1 is 134 Bcf. ■

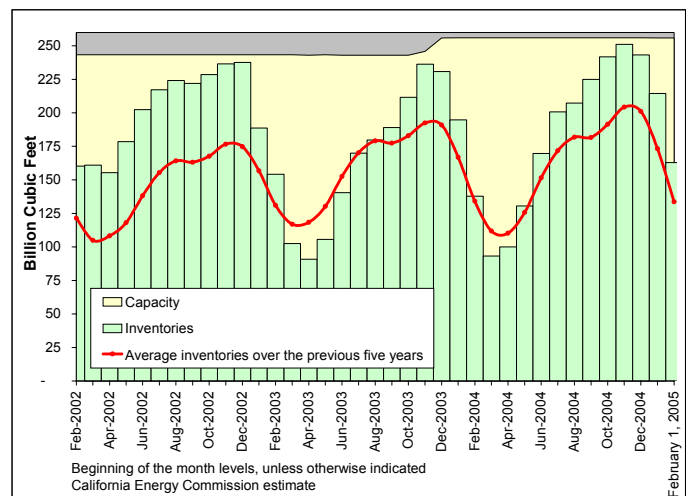


Figure 4. Monthly California Storage Inventories

U.S. Natural Gas Storage

The EIA reported that national natural gas storage inventories stood at 2,082 Bcf on January 28, 2005. During January 2005, 616 Bcf of natural gas was withdrawn from storage facilities nationwide, about the same amount that was withdrawn during the previous month. Around the same time last year, national natural gas storage inventories were 1,894 Bcf, and the five year average for the end of January is 1,809 Bcf. ■

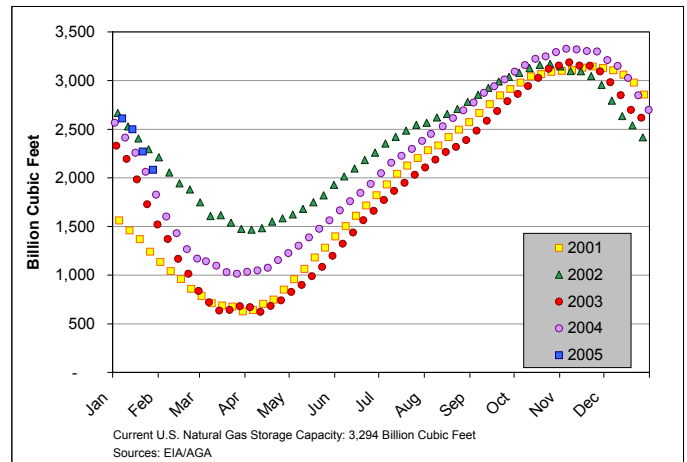


Figure 5. U.S. Natural Gas Storage Levels

California Gas Drilling and Production

Statewide natural gas production was 883 MMcf per day during November 2004, virtually unchanged from the previous month. Strong output from District 6 was offset by declines in offshore gas production in Federal waters, which declined for the fifth consecutive month.

During January 2005, three natural gas drilling permits were issued in District 6, the same amount issued during January 2004. District 6 produces the largest volume of non-associated natural gas in California. The district encompasses all of Northern California north of Santa Cruz, Santa Clara, Stanislaus, Tuolumne, and Mono counties, as well as a small portion of Stanislaus County. ■

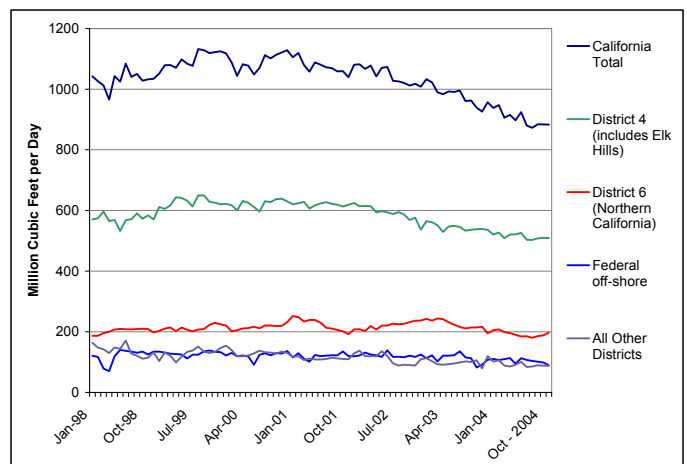


Figure 6. California Natural Gas Production, by District

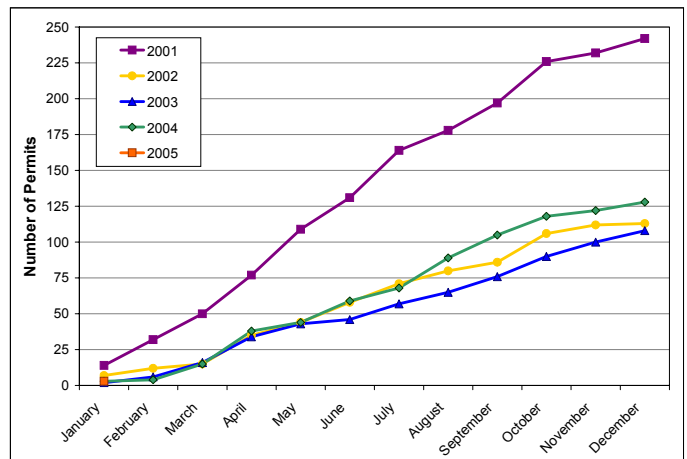


Figure 7. Drilling Permits Issued for District 6 (Northern California)

Regulatory Summary

California Public Utilities Commission Cases

Proceeding Number & Title	Description	Status
I.0211040 Investigation on Natural Gas Prices from December 2000 to May 2001	Investigates gas market activities of California utilities and their impact on gas prices at the California border from March 2000 through May 2001.	On December 16, 2004, CPUC rejected Administrative Law Judge's (ALJ) Proposed Decision (PD). (ALJ PD had found that SoCalGas took actions that increased gas prices in 2000-2001 in order to profit.)
A.02-12-027/A.02-12-028 SoCalGas/SDG&E Cost of Service and PBR proposal	Establishes revenue requirement for SoCalGas and SDG&E, may establish PBR structure for SoCalGas and SDG&E.	Phase 1 (cost of service) decision issued 12/2/04. ALJ PD in Phase 2 (PBR) to be issued.
I.0404024 Order Instituting Investigation into the proposal of Sound Energy Solutions (SES) to construct and operate a liquefied natural gas terminal at the Port of Long Beach	Orders SES to file an application for a certificate of public convenience and necessity if it intends to pursue construction of the project, and promotes public safety and California's environmental welfare, consistent with state and federal law.	Schedule delayed to allow review of EIR/EIS.
A.04-01-034 SoCalGas "Native Gas" Production and Revenue Sharing	SoCalGas requests authority to produce natural gas in vicinity of storage fields, and share revenues from sales with customers.	Partial settlement of issues reached with some parties. Case is submitted. ALJ PD to be issued. Additional settlement talks occurring. Status report issued October 29, 2004.
R.0401025 Policies and Rules to Ensure Reliable, Long-term Supplies of Natural Gas to California	Considers and rules on California natural gas utilities' proposals to ensuring reliable, long-term supplies of natural gas to California, including interstate pipelines, LNG, storage, and in-state production.	Phase 1 Decision adopted on September 2, 2004. Phase 2 scoping memo issued on January 22, 2005. Joint CPUC/CEC workshop on natural gas quality issues held in mid-February.
PG&E BCAP A.04-07-044	Allocates PG&E's gas distribution revenue requirement to customer classes and sets rate design.	ORA testimony filed December 10, 2004 other parties' testimony filed January 11, 2005. Rebuttal filed Jan. 28, 2005.
SoCalGas A.04-08-018 to establish regulatory authority over the access for natural gas provided by California gas producers	Establish the terms and conditions under which natural gas produced by California gas producers will be granted access to the SoCalGas operating system.	Application filed August 16, 2004. Protests filed September 20, 2004. Status reports issued Oct 29th and Dec. 9th by CIPA, WSPA, SoCalGas.
A.04-09-009 Southwest purchase of Avista's natural gas properties	Requests authority for Southwest Gas to purchase Avista's California natural gas properties and take over service to Avista's customers.	Application filed September 2, 2004. One protest filed by ORA on Oct. 12th. Joint Settlement filed Jan 11, 2005. PHC held Jan. 14th
A.04-12-004 SoCalGas/SDG&E to establish firm tradeable rights, system integration and off-system deliveries	Proposes a system of firm, tradeable receipt point capacity rights; integration of SoCalGas and SDG&E transmission rates; and authority to make deliveries of gas off the SoCalGas/SDG&E system.	Application filed December 2, 2004. Protests filed January 20, 2005.